

# Auditor's Summary

## Financial and Compliance Audit of the Department of Human Services

Financial Statements, Fiscal Year Ended June 30, 2017



PHOTO: DEPARTMENT OF HUMAN SERVICES

DHS Director Pankaj Bhanot and Rep. Dee Morikawa join the DHS Division of Vocational Rehabilitation for their annual white cane walk to raise awareness of the importance of the cane for those who are blind, visually impaired and deaf and blind.

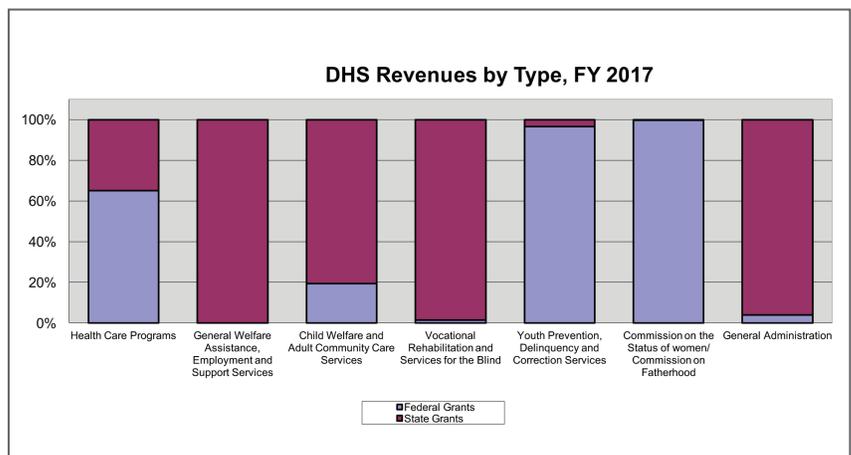
**THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Human Services (DHS), as of and for the fiscal year ended June 30, 2017, and to comply with the requirements of Code of Federal Regulations, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, Part 200 (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by KMH LLP.

### About the Department

**DHS' MISSION** is to direct its resources toward protecting and helping those least able to care for themselves and to provide services designed toward achieving self-sufficiency for clients as quickly as possible. DHS is committed to maintaining a high level of quality, efficiency, and effectiveness in its services. DHS' activities and attached programs include Health Care Programs; General Welfare Assistance, Employment and Support Services; Child Welfare and Adult Community Care Services; Vocational Rehabilitation and Services for the Blind; Youth Prevention, Delinquency and Correction Services; General Administration; Commission on the Status of Women; and Commission on Fatherhood.

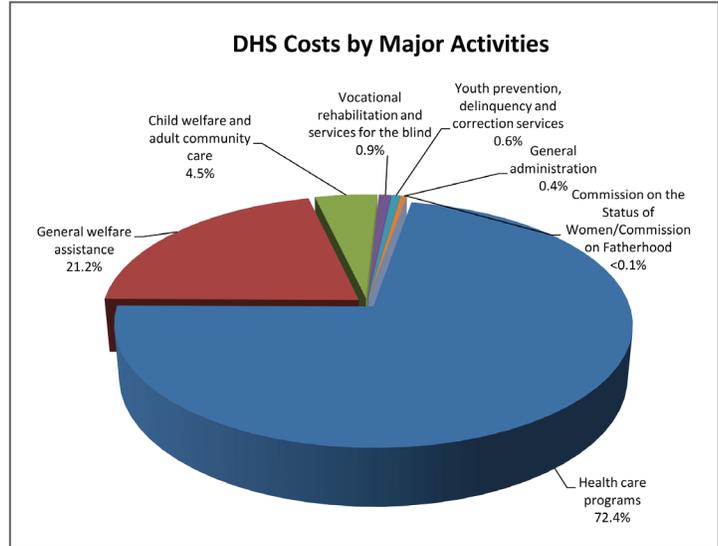
### Financial Highlights

**FOR THE FISCAL YEAR** ended June 30, 2017, DHS reported total revenues of \$3.63 billion and total expenses of \$3.64 billion. Revenues consisted of \$1.28 billion of state allotments, net of lapsed amounts plus nonimposed employee fringe benefits, and \$2.35 billion in program revenues, which consist of operating grants from the federal government. Revenues from these federal grants paid for 65 percent of the cost of DHS' activities.



Health care and general welfare assistance programs comprised 72.4 and 21.2 percent, respectively, of the total cost. The following chart presents each major activity as a percent of the total cost of all DHS activities.

As of June 30, 2017, DHS' total assets of \$501 million exceeded total liabilities of \$308 million by \$193 million. DHS had an unrestricted net position of \$87 million. Total assets were comprised of cash of \$199 million, receivables of \$196 million, and net capital assets of \$106 million.



## Auditors' Opinions

### DHS RECEIVED AN UNMODIFIED OPINION

that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHS received a qualified opinion on its compliance with requirements that could have a direct and material effect on its major federal programs, with the exception of the Low Income Home Energy Assistance, which received an unmodified opinion in accordance with the *Uniform Guidance*.

## Findings

**THERE WAS ONE SIGNIFICANT DEFICIENCY** in internal control over financial reporting that is required to be reported under *Government Auditing Standards*. There were 13 material weaknesses and three significant deficiencies in internal control over compliance that are required to be reported in accordance with the *Uniform Guidance* and *Government Auditing Standards*.

### Material Weaknesses (13)

- Lack of proper documentation to support eligibility determinations and actions taken related to benefits (6);
- Eligibility determinations were not processed or not completed in a timely manner (2);
- Failure to complete the participant's individualized plan for employment or obtain approval;
- Inaccurate federal data reporting;
- Inadequate monitoring of subrecipients;
- Lack of monitoring for earmarked funds; and
- Lack of proper documentation to indicate whether appropriate action was taken regarding non-cooperating participants.

### Significant Deficiencies (4)

- The Med-Quest Division capitalized and amortized items related to the operation and maintenance of the KOLEA software that did not meet the criteria for capitalization;
- Lack of post-payment review process over utilization of Medicaid services;
- Lack of subcontractor monitoring procedures over the Medicaid Drug Rebate Program; and
- Late submission of one report for the Social Services Block Grant.

### Other Matter

- Lack of approval of individualized plans for employment for 3 participants to receive benefit payments.

For the complete report and financial statements visit our website at:  
[http://files.hawaii.gov/auditor/Reports/2017\\_Audit/DHS2017.pdf](http://files.hawaii.gov/auditor/Reports/2017_Audit/DHS2017.pdf)